



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
BREATHITT COUNTY SHERIFF**

Calendar Year 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BREATHITT COUNTY SHERIFF

Calendar Year 2001

The Auditor of Public Accounts has completed the Breathitt County Sheriff's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$504 from the prior calendar year, resulting in excess fees of \$18,630 as of December 31, 2001. Revenues increased by \$16,583 from the prior year and disbursements increased by \$8,215.

Debt Obligations:

Capital lease principal agreements totaled \$11,281 as of December 31, 2001. Future principal and interest payments of \$11,281 are needed to meet these obligations.

Report Comments:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Bettie Cornett, Breathitt County Judge/Executive
Honorable John L. Turner, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Breathitt County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued a report dated July 8, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Bettie Cornett, County Judge/Executive
Honorable John L. Turner, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following reportable condition and material weakness:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2002

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

Federal Grants - COPS Universal Hiring Grant	\$	35,634
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State Grants:

Kentucky's Body Armor Program Grant	\$ 803	
Kentucky Law Enforcement Foundation Program Fund	14,008	
Local Law Enforcement Block Grant	4,500	
Kentucky State Police Governor's Highway Safety Grant	10,991	30,302

Circuit Court Clerk:

Sheriff Security Service	\$ 6,978	
Fines and Fees Collected	1,355	
Court Ordered Payments	13,285	21,618

Fiscal Court		34,427
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County Clerk - Delinquent Taxes		1,362
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Commission On Taxes Collected		99,869
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Fees Collected For Services:

Add on Fees	\$ 15,342	
Auto Inspections	3,220	
Accident and Police Reports	233	
Serving Papers	23,456	
Carrying Concealed Deadly Weapon Permits	3,255	
Transporting Prisoners	6,600	
Miscellaneous	6,345	58,451

Interest Earned		908
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Borrowed Money:

State Advancement		42,000
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Total Receipts	\$	324,571
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BREATHITT COUNTY
 JOHN L. TURNER, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	94,429
Other Salaries-COPS Universal Hiring Grant		29,414

Employee Benefits-

Employer's Share Social Security		10,579
Employer's Share Medicare		1,948
Employer's Share Retirement		2,608

Contracted Services-

Advertising		8
Vehicle Maintenance and Repairs		7,272
Transporting Prisoners		413

Materials and Supplies-

Office Materials and Supplies		1,648
Uniforms		4,325

Grant Expenditures-

Kentucky Law Enforcement Foundation Program Fund		8,497
Kentucky State Police Governor's Highway Safety Grant		11,530
Kentucky's Body Armor Program Grant		803
Local Law Enforcement Block Grant		5,000

Other Expenses-

Fiscal Court Ordinance		6,755
Deputy Training		547
Postage		48
Summons Refund		180
Bond		787
Carrying Concealed Deadly Weapon Permits		2,335
Miscellaneous		3,688

Debt Service-

State Advancement		42,000
Lease Agreement (Note 4)		11,281

Total Disbursements	\$	246,095
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Net Receipts	\$	78,476
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Less: Statutory Maximum		59,846
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Excess Fees Due County for Calendar Year 2001	\$	18,630
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Payments to County Treasurer - December 31, 2001		18,154
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Balance Due at Completion of Audit	\$	476
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The accompanying notes are an integral part of the financial statement.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and the 6.41 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Lease

The Breathitt County Sheriff entered into a lease agreement with Citizens Bank and Trust Company of Jackson, Kentucky on December 23, 1999 for two police cruisers. This agreement requires 4 annual payments of \$11,281 beginning December 23, 1999 and continuing until December 23, 2002. The balance of the agreement as of December 31, 2001 was \$11,281.

Note 5. COPS Universal Hiring Grant

The Breathitt County Sheriff's office was awarded a grant on December 1, 1999 under the COPS Universal Hiring Grant in the amount of \$114,565 from the United States Justice Department. The grant end date is November 30, 2002. The grant account had a beginning balance of \$539 at January 1, 2001. Grant receipts for calendar year ended December 31, 2001 totaled \$40,000. Funding under this project is for the payment of salaries and approved fringe benefits for three years for sworn entry level career law enforcement officers, lateral transfers, or rehired officers. Grant funds must be used to hire one or more new career law enforcement officers. Fund expenditures totaled \$35,634 leaving a fund balance of \$4,905 for the calendar year ended December 31, 2001. This ending fund balance should not be included in excess fees. All funds received appear to be expended for their intended purpose.

BREATHITT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 6. Kentucky Law Enforcement Foundation Program Fund (KLEFPF)

The Breathitt County Sheriff's office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, an eligible officer is entitled to receive up to \$3,100 annually as provided in KRS 15.460. During the calendar year ended December 31, 2001, the Breathitt County Sheriff's office received and expended \$14,008, leaving a balance of \$0 at December 31, 2001. All funds received appear to be expended for their intended purpose.

Note 7. Highway Safety Grant - Operation Safe Roads Fund

The Breathitt County Sheriff's office was awarded a grant in October 2000 totaling \$14,700 under the Federal Highway Safety Administration Program. The funds awarded are to be used to allow four officers overtime pay to patrol for speeders and individuals that are not properly restrained in their vehicle. The grant will also equip cruisers with up to four new radar guns and will provide additional training for their use. The Operation Safe Roads Fund had a beginning balance of \$31 at January 1, 2001, receipts of \$11,001 and grant disbursements of \$10,991. At December 31, 2001, the grant balance is \$41. All funds received appear to be expended for their intended purpose.

Note 8. Kentucky Body Armor Program Fund

The Breathitt County Sheriff's office received \$1,552 under the Kentucky Body Armor Program. The funds received are to be used to purchase bulletproof vests for the Sheriff's Department. All funds received appear to be expended for their intended purpose. The Body Armor Fund had a beginning balance of \$66 at January 1, 2001, and \$803 was expended for grant purposes. The balance as of December 31, 2001, is \$815.

Note 9. Local Law Enforcement Grant

In March of 2001, the Breathitt County Sheriff's Office received a grant for \$4,500 from the Local Law Enforcement Block Grant. Funds received were used to purchase guns and holsters for the Sheriff's Department. All funds received were expended for their intended purpose. The Block Grant Fund balance as of December 31, 2001, was \$0 and the account was closed.

Note 10. Asset Forfeiture Fund

The Breathitt County Sheriff's office received funds from proceeds of a court order and established an Asset Forfeiture Fund. These funds are to be used for law enforcement expenses. In addition to the \$210 balance carried forward from calendar year 2000, the Asset Forfeiture Fund received \$2 in interest. The entire account balance of \$212 was expended in 2001 and the account was closed. All expenditures appear to be for their intended purpose.

Note 11. Fiscal Court Ordinance

In accordance with Ordinance #092100 and for the purpose set forth in House Bill 557, beginning October 1, 2000, the Sheriff's office will assess an additional fee of \$10 for persons requesting service of a subpoena or a civil summons. The Breathitt County Sheriff shall no later than monthly remit to the Breathitt County Fiscal Court all fees collected pursuant to this ordinance. Fees remitted as of December 31, 2001, totaled \$6,755.

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COMMENT AND RECOMMENDATION

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
COMMENT AND RECOMMENDATION

Calendar Year 2001

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

County Sheriff's Response:

OK.

PRIOR YEAR:

The Internal Controls Of The Sheriff's Office Are Weak Due To A Lack Of Adequate Segregation Of Duties

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Members of the Breathitt County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Breathitt County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated July 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Breathitt County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Breathitt County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2002

